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STATE OF WASHINGTON  
DEPARTMENT OF INFORMATION SERVICES  
*Olympia, Washington 98504-2445*

EX PARTE OR LATE FILED

January 30, 1998

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The Honorable Magalie Roman Salas  
Office of the Secretary  
Federal Communications Commission  
1919 M Street N.W., Room 222  
Washington, D.C. 20554

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Re: Ex Parte Presentation in CC Docket 96-45

Dear Secretary Salas:

This is to notify you that the representatives of the Washington State Department of Information Services, the Washington Utilities and Transportation Commission, and the Office of U.S. Senator Slade Gorton met today by teleconference with Irene Flannery and Mary Ann McCormick of the Commission's Common Carrier Bureau to discuss matters related to the above-referenced docket.

Enclosed are materials that were distributed as part of that meeting.

Please call me at (360) 902-2981 if you need further information.

Sincerely,

David Danner  
Senior Policy Advisor

Enclosures

cc: Mary Ann McCormick  
Irene Flannery

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State of Washington Issues Related to the FCC's Fourth Order on Reconsideration  
Universal Service Fund Discounts as Applied to State Network Services

***Background***

The FCC's current rules for allowing schools and libraries to receive universal service fund discounts on their telecommunications services provide that schools and libraries should competitively procure such services to ensure they get the lowest prediscount rate. The implied reasoning is that the lowest prediscount rate means the lowest net payment for the schools and libraries and the lowest contribution from the Universal Service Fund (USF).

The state network in Washington, through its ability to aggregate demand and provide value-added components, provides the lowest prediscount pricing available in the market for most public organizations. Today, prior to e-rate considerations, 120 school districts and libraries have made a business decision to utilize the state network in order to take advantage of value-added services at competitive rates.

***Current FCC rules may result in unintended consequences***

Under the FCC's current rules, the lowest prediscount rate could be subject to a different reimbursement formula and therefore, even though it is the best service at the lowest rate, it may cost schools and libraries more for their net payment. Such a result may occur because current rules do not allow the state network to discount its total rate in the same way that a carrier may discount its entire rate. For state network rates, only those cost elements directly attributable to carrier charges are eligible for discount. This can penalize schools by forcing them to either leave the state network and buy service direct from a carrier, or continue to use the network and pay a higher net price for services.

***Value-added service components vs. minor administrative charges***

The state network in Washington adds value to basic carrier services in a variety of ways. The lower rates carriers charge the state network are not solely based on volume purchasing leverage. In varying degrees, depending on the service, the state network often collaborates with carriers to assume responsibility for some aspects of service delivery as a way to further reduce costs and/or tailor services to better fit the business needs of public organizations.

The Fourth Order on Reconsideration assumes that all cost elements in a state network rate are either carrier charges or *minor* state administrative charges. In fact, state network rates contain cost elements reflecting value-added components and, in some cases, service delivery responsibilities that are shared with carriers.

***Telephony services provided by the state network in Washington***

***Local Telephone Service:*** US WEST, GTE, and Sprint furnish Centrex services to the state network through custom contracts. State network value-added factors account for about 20% of the overall cost of the service. Part of the justification for larger discounts

from carriers is attributable to the fact that the carrier has only the state network organization to deal with for order processing, billing, and problem resolution – a single interface rather than needing to deal directly with hundreds of individual public organizations. State network value-added service components include:

- analysis of subscriber requirements and development of appropriate service orders
- an automated system for service order processing
- project management support for new service initiation
- a single point of contact for subscribers regardless of the particular carrier involved in service provision
- performance of on-line service management functions such as line feature changes
- a billing system that generates simple, easy to understand statements and billing detail that is tailored to meet the subscriber needs
- a 24 x 7 help desk that provides problem resolution support for subscribers
- network performance monitoring and technical support for problem resolution
- optional access to state network long distance services
- optional access to cost-effective voice messaging and other enhanced services that may be of value to schools and libraries (recognizing that some service options may not be eligible for USF discounts)

**Long Distance:** Sprint, US WEST, GTE, and AT&T furnish telecommunication services that are combined in the state network to produce long distance services for public organizations. Currently, subscribers use the state network to place in excess of 2 million long distance calls per month, totaling about 10 million call minutes. For long distance, state network value-added components account for about 47% of the service. In addition to many of the value-added elements outlined in the Centrex detail above, the long distance value-added elements also include:

- carrier-class switching infrastructure and related facilities are used to aggregate long distance traffic from more than 300 physical locations serving 500 public organizations of which 120 are school districts and libraries
- network design and engineering
- network operation and management

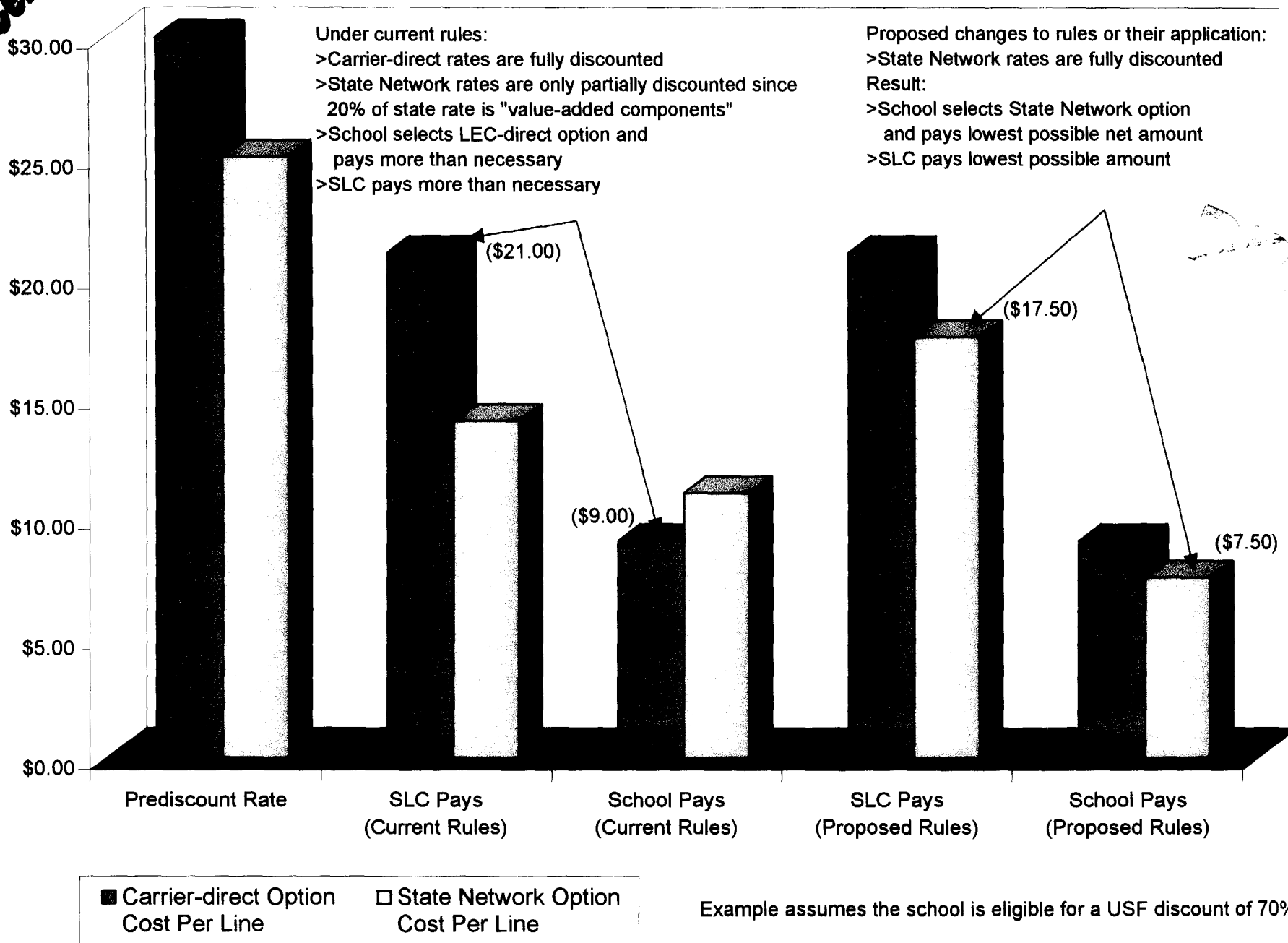
***A change is needed in the FCC rules or the way in which they are applied***

Schools and libraries must be able to take advantage of the lowest available prediscount rate regardless of the fact it may include value-added components of the state network. The Universal Service Fund discount must be applied against the *complete* state network rate, not just the carrier-supplied portion. This will result in the lowest cost to the school or library, and the lowest cost to the Universal Service Fund. An additional benefit will be that schools and libraries will be able to remain on the state network and continue to contribute to the purchasing leverage created by public organizations for their mutual benefit.

Please refer to the attached charts as illustrations of potential problems. These examples also demonstrate better economic outcomes for both schools and the USF if state network rates are fully discounted.

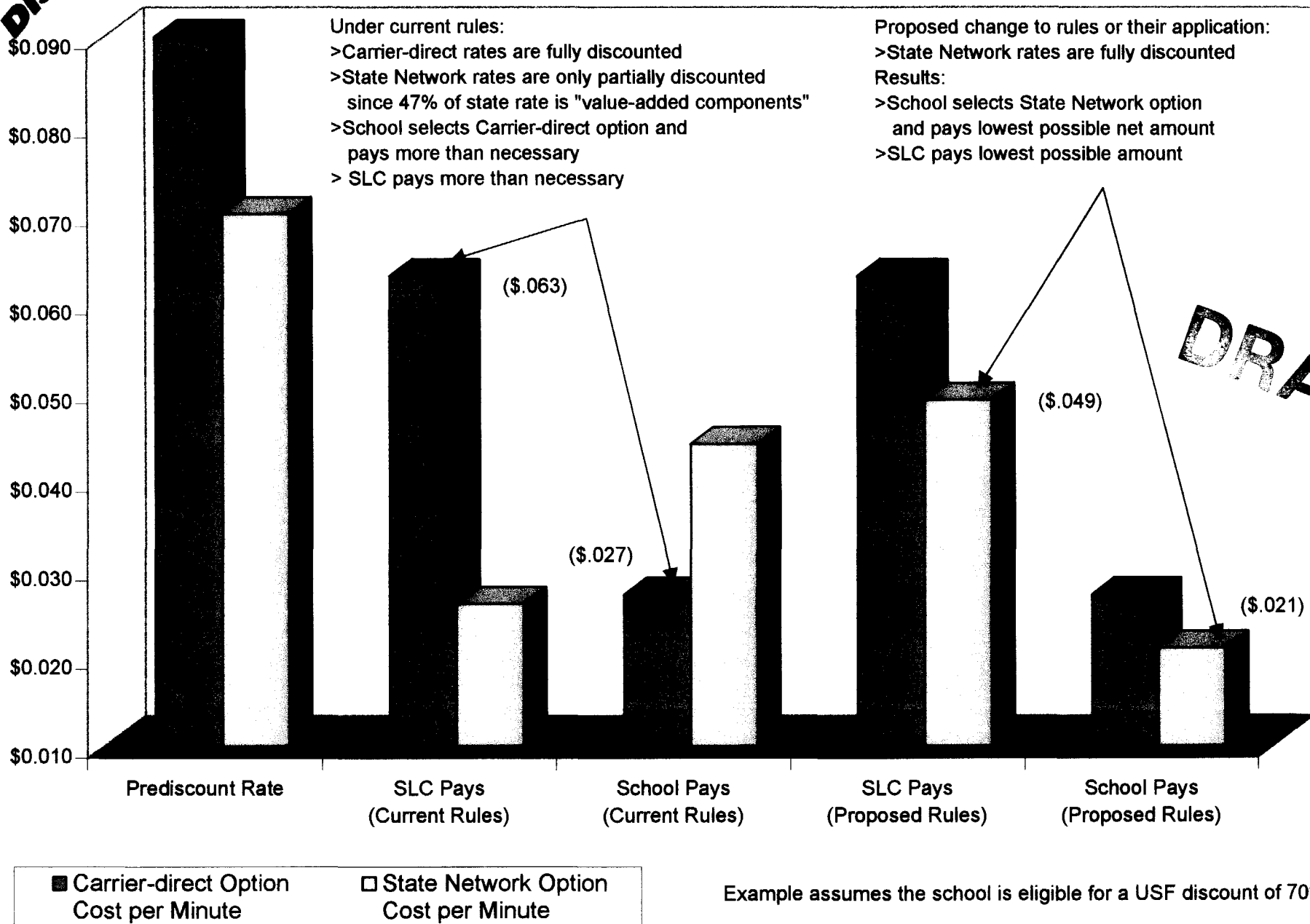
**Centrex**

# Illustrates Disincentives For Schools To Use Lower-Cost State Network Centrex Service When Applying Current FCC / SLC Rules In The State of Washington



**Long  
Distance**

**Illustrates Disincentives For Schools To Use Lower-Cost State Network Long Distance Service  
When Applying Current FCC / SLC Rules In The State of Washington**



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## Discussion Paper

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State of Washington Issues Related to the FCC's Fourth Order on Reconsideration  
Universal Service Fund Discounts as Applied to the K-20 Network

***Washington's K-12 Schools will enjoy cost-effective, advanced telecommunication services as participants in the state's K-20 Education Network.***

Picture this: Fourth graders in a rural southeast Washington community learning about marine mammals use their computer to access a professor of marine biology at the University of Washington in Seattle. Through the Internet? That's just one of the possibilities soon to be available to K-12 students anywhere in Washington. But these students will also be able to learn through real-time interaction with teachers, subject matter experts and other students thanks to the switched video services provided by the K-20 network. Each of Washington's 296 school districts is being connected to the network, and every district, urban and rural, large and small, will have the benefit of the advanced telecommunication services provided by the network.

***The K-20 Network implements the vision of the Federal Telecommunications Act of 1996***

The creation of Washington's K-20 Education Telecommunications Network put into action the goals and outcomes anticipated in the Act. Through leveraged competition, economies of scale, and the value-added integration of private sector products and services, K-20 provides the advanced telecommunications services as envisioned in the Act.

***The K-20 Network is a pioneering project representing the shared vision of the Washington State Legislature, the Governor, and all of the state's public education communities.***

The State of Washington is a pioneer in providing its education communities with advanced, integrated network services including a multi-sector intranet, Internet access, and interactive switched video services. As the name K-20 implies, this advanced education telecommunications network serves K-12 schools, community and technical colleges, 4-year baccalaureate schools, research universities and public libraries. Students and teachers clearly benefit from access to others *within their own education sector*, but this network also provides intranet and video connections *between the sectors*.

The K-20 Network was designed with the guidance and participation of the entire education community. The purpose of this multi-sector collaboration was to 1.) avoid costly, duplicative and overlapping infrastructure; 2.) assure interoperability between the education sectors and their programs; and 3.) achieve maximum leverage in obtaining the required components of the network.

Examples of network services provided by K-20 that go beyond basic telecommunication services:

- ✓ K-20 establishes an "Education Intranet" that provides high performance, low overhead delivery of Internet traffic between the state's education institutions without the necessity to route the traffic through the national Internet backbone. Network traffic that needs to flow to and from the national Internet backbone for accessing locations outside the state is routed through a small number of high-capacity gateways to achieve additional efficiencies. Lower cost and higher performance result from this highly leveraged, shared network approach.
- ✓ K-20 provides switched ISDN services for two-way interactive video. Point-to-point and multi-point connections allow K-12 schools to connect with each other and with community college and higher ed institutions. Since these kinds of services are not currently available in many Washington communities, a significant number of K-12 schools could not participate without access to the K-20 Network.

***The K-20 Network depends on the state's value-added integration of private sector infrastructure, products, and services.***

By integrating products and services supplied by a variety of telecommunication carriers and equipment suppliers, the K-20 Network is able to bring cost-effective, advanced services to rural schools that would otherwise be unable to obtain them. The interactive video services that can link rural students with college professors as discussed above, are provided through the switched ISDN services of the K-20 Network. Such services are simply not available in rural Washington, or in many urban areas for that matter.

The K-20 Network employs leveraged competition to purchase local and interexchange transport services from carriers including US WEST, AT&T, Sprint, and GTE. The network also employs switching equipment obtained from Lucent, Nortel, Cisco, GTE, US WEST and others to aggregate and switch network traffic through regional nodes of the statewide backbone network.

***K-20 Network service rates are the mechanism through which costs are shared by Washington's education communities.***

The schools pay for the various services provided by the K-20 network through rates that are established to reflect the cost of providing service. Leased circuit costs, equipment, maintenance and operations costs are elements of the K-20 network service rates just as they are when "common carriers" develop rates.

***Current FCC interpretation of the Telcom Act adversely impacts the economic benefits anticipated by Washington's K-12 schools.***

There is an ironic twist in the way Universal Service Fund (USF) discounts for K-12 schools are being made available that adversely affects advanced function, shared state networks like K-20. The FCC's Fourth Order on Reconsideration appears to indicate that for "advanced services" the state's K-20 network may be viewed as a service provider,

establish rates, and receive discounts for K-12 schools directly from the USF. However, the Fourth Order identifies Internet service as the only service that fits the category of “advanced services.”

Other services such as switched ISDN, which supports interactive video applications, are currently not considered “advanced services” and therefore USF discounts cannot be obtained by state networks in the same straightforward, cost-effective way as Internet services. Instead, discounts must be obtained in a way that 1.) requires burdensome administrative processes for the state network, the schools, and the carriers; and 2.) does not allow all of the legitimate costs of providing the service to be discounted. The net effect of this approach reduces the USF discounts available to Washington’s K-12 schools.

For those K-20 Network services not considered as “advanced services,” the state must identify, on a school-by-school basis, exactly what proportion of shared network resources are obtained from each of many suppliers of network products and services. Recall that for circuit capacity alone, US WEST, AT&T, Sprint, and GTE supply capacity that is shared by K-20 network participants. This is further complicated since the network is also shared by higher education and community / technical colleges. The state and the carriers must then determine, on a segment-by-segment basis, what proportion of the service is discountable for K-12 schools.

Furthermore, there are other state network costs associated with delivering “advanced services” like switched ISDN. The state employs leased node sites utilizing various switching and multiplexing equipment in the delivery of the service. Maintenance and operations costs are also cost elements of the service. These legitimate state costs of service provision are the same elements that a carrier or other service provider would include in the rate calculations for delivery of such a service. These value-added costs in the state network must be recognized as eligible for discounts.

***Unintended consequences of the FCC’s fourth order as applied to state networks.***

Disincentives for the use of state networks may result if the value-added services such networks provide cannot be discounted based on full cost-recovery rate structures and without burdensome administrative procedures. If the cost of state network services can only be partially discounted, the resulting disincentives to use state networks are likely to result in higher charges and costs for the USF.

***A simple and straightforward solution based on processes and definitions already present in the Fourth Order on Reconsideration.***

When state networks, such as K-20, integrate many products and services, and add considerable value in the process, they must be considered “service providers” eligible to receive discounts for K-12 schools directly from the USF. As a service provider, a state network establishes rates for services available from the network. These network

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services rates then serve as the basis for calculation of the discounts appropriate to each school.

A couple of ways in which the desired outcome can be achieved include:

- ✓ Adjusting the Fourth Order, or more flexibly interpreting it to recognize as “advanced services” those in which state networks integrate and add significant value to service elements acquired from carriers and other product and service providers.
- ✓ Simply define state networks as service providers that are eligible to receive discounts for K-12 schools directly from the USF based on established rates.

This is not to suggest that state networks like K-20 be designated as “carriers.” Rather, the term “service provider” should identify state networks that integrate various purchased service components and add significant value to produce the ultimate services that K-12 schools require.